Volatility: The Agribusiness Response

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2007+: A New Era for Agriculture

Source: FAO, March 4, 2014
Increasing Volatility Across Commodities

**Development of primary commodity prices since 2000**
in US$ per metric ton unless otherwise noted, index: 2005=100

Source: IMF Primary Commodity Prices, 2013
VOLATILITY DRIVERS

FUNDAMENTAL SHIFT LEADING TO SUPPLY-DEMAND IMBALANCE

**Demand**
- Population and Income Increasing
- China and others eating more meat, dairy
- Biofuel use continues

**Supply**
- Productivity growth not keeping pace
  - Low Investments R&D
  - New land = Marginal Land
- Water constraints
- Weather events
- Lower commodity stocks
Response 1:
Supply Chains – From Farm to Fork

Integrating Backwards to

- Manage volatility
- Secure current and future supply
- Ensure food safety
- Guarantee traceability
- Meet sustainability targets
- Protect brand reputation
Tesco Group Food

Previous Model – Beef Supplier

- Supplier negotiations on raw material (80% of costs)
- Supplier supply chain management
- Supplier negotiated packaging
- Blend of pack prices, tender, and kill model
- Supplier managed logistics

Revised Model – Beef Supplier/Group Food

- Group Food negotiated raw material (80% of costs)
- Supplier/Group Food supply chain managed fixed kill and traded primal
- Group Food negotiated packaging
- Transport yield and process rate model
- Supplier/Group Food managed logistics
Olam 2009

- 82% in emerging markets & 18% in developed economies
- Strong emerging market expertise

1994
- 7 Products
- 4 Countries

2001
- 10 Products
- ~20 Countries

2005
- 14 Products
- ~40 Countries

Today
- 20 Products
- ~60 Countries

1. Founded as an exporter in Nigeria in 1989
2. Expansion into Asia and Europe
3. Expansion into North and South America, Middle East
4. Global presence across 5 continents
Olam Investment Spree 2009-2012

2.2 million hectares across 10 products in 11 countries

- Almonds, rice, dairy, …

- **Tomato processing** California
- **Cashew processing** Tanzania, Cote D’Ivoire
- **Cotton ginning** Mozambique
- **Flour milling** Ghana, Nigeria
- **Fertilizer** in Gabon
- **Sugarcane** in Brazil
Response 2:
Differentiation

Tailoring products through special traits, sustainable and/or ethical sourcing, whole chain traceability in order to:

- Stabilize margins
- Increases customer willingness to pay
- Basis for branding

Aligned supply chain, feedback loops
M&S: We trace it, so you can trust it

Loblaw’s Unveils DNA-Traceback Beef
Branding Ireland

Launched June 2012
Origin Green Target Areas

365 companies signed up
75% Irish food exports covered by end of 2014
Response 3: Supply Growth

Investments in land, technology, infrastructure, training in order to:

• Stimulate production
• Increase buying options
• Assure long-term supply
Fonterra and Nestlé building large-scale dairy farms in China
Coca-Cola & Jain Irrigation helping 50,000 Indian mango growers
Mission Produce: Avocados in Peru

August 2011
Mission Produce: Avocados in Peru

December 2013
Response 4:  
**International Expansion**

**Enter / grow in new markets**

- Counter slow growth in traditional markets
- Establish global sourcing
- Spread risks
China

- Feed 22% of population with <10% arable land
- Pork consumption doubled since 1990 to 40 kg/person
- Relentless urbanization
  - 15 to 20 million people moving to cities every year

- By 2010, more premium consumers than all of Europe
  - Largest grocery market in the world
  - A new KFC opens every 13 hours!
OSI grows lettuce for McDonald’s China
Modern broiler farms

...and now broilers
China

- Food policy – Critical!
  - Produce? Import?
- FDI $12 B in Brazil in 2011 ($82 M in 2008)
  - Also Africa, Australia, New Zealand….
- Buying companies as well as commodities
  - Smithfield, NIDERA, Nobles, ….
Africa on the Move

- 6 of top 10 fastest growing economies
- 60% of world’s uncultivated arable land

$1 TRILLION food market by 2030 if:

- Capital
- Electricity
- Technology

African middle class on the rise

- 2010: 760 million above poverty line
- 2025: 1.23 billion above poverty line
- 475 million new consumers in 15 Years

Source: World Bank; IMF; Silk Invest
Diageo Africa: “Shaving the Iceberg”

### A Bubbling Market
Forecast annual growth rate in volume of beer

<table>
<thead>
<tr>
<th>Region</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>4.6%</td>
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<tr>
<td>Asia</td>
<td>3.8%</td>
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<tr>
<td>Latin America</td>
<td>3.5%</td>
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<tr>
<td>Middle East/N. Africa</td>
<td>2.9%</td>
</tr>
<tr>
<td>World</td>
<td>2.4%</td>
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<tr>
<td>Eastern Europe</td>
<td>2.0%</td>
</tr>
<tr>
<td>Australia(^1)</td>
<td>0</td>
</tr>
<tr>
<td>Western Europe</td>
<td>-0.5%</td>
</tr>
<tr>
<td>North America</td>
<td>-0.6%</td>
</tr>
</tbody>
</table>

\(^*\)Five-year compound annual growth rate, 2012-16  \(^1\)And neighboring islands
Source: Canadean via SABMiller

The Wall Street Journal
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